

22<sup>nd</sup> May, 2014

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Basel Committee on Banking Supervision - Bank for International Settlements  
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**Re: Second Consultative Document Fundamental Review of the Trading Book<sup>1</sup> - BCBS 265 –  
Quantitative Impact Study Feasibility**

Dear Ms. Barger and Mr. Cordewener,

The Associations<sup>2</sup> and our members would like to reiterate our profound concerns regarding the proposed timeline for running the industry-wide Quantitative Impact Study (“QIS”) on firms’ actual portfolios in support of the Fundamental Review of the Trading Book (“FRTB”). The comments in this letter are derived from our members’ enhanced understanding (based among other factors on the recent experience with the HPE process) of the scope and magnitude of the modelling and infrastructure changes required to roll-out the new methodologies into a testing environment that is as close as possible to the conditions in the firms’ production environment for quality control purposes. This letter also proposes an implementation framework that we hope the Trading Book Group (“TBG”) will take into consideration before the launch of the anticipated firm-wide QIS.

In line with the arguments presented in our previous communication on this topic, we would like to highlight that the competing regulatory data requirements, uncertainties in the proposed framework and technical difficulties in implementing these changes will inhibit the smooth and robust execution of a firm-wide actual portfolio QIS within this timeframe. Specifically, the experience that our members gained from going through the most recent Hypothetical Portfolio Exercises (“HPE”s) has demonstrated that:

- The proposed framework is much more complicated than the current one (Basel 2.5) and material rule interpretation issues still remain, to which the output estimates exhibit high sensitivity;
- The numerous assumptions and the high volume of work that was required in order to perform the QIS on a limited number of relatively simple hypothetical portfolios indicated that the proposed framework requires refinement before it becomes scalable at the actual firm level;
- The execution of an accurate firm-wide QIS requires significant system and process work, as well as systematic testing and validation, all of which require time and significant resources;
- The proposed methodologies for standard rules and internal models approach (“IMA”) are process/computationally intensive requiring production-like support, leading to the conclusion that banks need time to expand their capacity.

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<sup>1</sup> Basel Committee on Banking Supervision, October 2013

<sup>2</sup> The International Swaps and Derivatives Association (“ISDA”), the Global Financial Markets Association (“GFMA”) and the Institute of International Finance (“IIF”)

Therefore, we firmly believe that the proposed framework requires additional refinement and that supplementary HPEs should be consequently performed on both the Internal Model Approach (“IMA”) and the standardized Sensitivity Based Approach (“SBA”) before industry is in a position to proceed with a firm-wide portfolio exercise. This is essential because, among other issues, it will be the base for calibration of the relevant outstanding model parameters. It is also imperative that sufficient time is provided to firms for allowing them to build the required infrastructure so as to reliably estimate and validate the outputs and analyze the consequent impacts compared to the existing risk metrics and expected outcomes.

In full acknowledgement of the fundamental nature of the proposed changes to the standardized approach and the IMA (using sensitivities versus the adjusted cash flows, the treatment of market liquidity etc.), it is important that the design of the implementation process incorporates a series of HPEs aiming to identify the methodological consequences as well as reach the desired level of convergence across firms. Therefore, industry participants strongly urge the TBG not to proceed with a firm-wide QIS until the results of an HPE are adequately consistent, suggesting in tandem the following implementation process:

- A) Additional HPEs are carried out in the second half of this year until the FRTB framework is definitely specified and results are consistent across firms;
- B) The proposed concepts are employed into firms’ production (or production like) systems
- C) A firm-wide QIS is executed allowing for the final calibration of the proposed concepts based on real portfolio specificities. Given the timeframes required for points A and B it is not realistic for firms to be able to complete this exercise this year.

The Associations would like to reiterate their commitment to engaging constructively with the BCBS on this process. To this end, we would appreciate if the TBG would be amenable to organizing within a short period a conference call with industry participants so that we can elaborate further on the concerns presented herein. The Associations would also like to offer to facilitate setting-up a structure and procedures for more regular communication and dialogue between the parties on what is likely to be a demanding HPE and QIS process, if such an initiative is deemed helpful by the BCBS.

The Associations appreciate your consideration of this request and look forward to your reactions.

Your faithfully,

Mark Gheerbrant  
Head of Risk and Capital  
ISDA

David Strongin  
Executive Director  
GFMA

Andres Portilla  
Director, Regulatory Affairs  
IIF